



# Mining Economic Task Force Report

January 2009

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## Executive Summary

The BC Mining Economic Task Force was established by Premier Gordon Campbell and the Honourable Gordon Hogg, Minister of State for Mining, on December 5, 2008 to provide advice to governments on how to support and stimulate British Columbia's mining sector during the current economic crisis. Members of the Task Force are:

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Jim O'Rourke, (Copper Mountain Mining Corporation)

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The Task Force makes 13 recommendations that will assist the minerals industry in the following areas:

- to bridge the current industry downturn and liquidity crisis;
- to stimulate mineral exploration and development; and
- to position British Columbia for the recovery and long term growth of the industry.

Of these, the Task Force has listed the top four recommendations that it believes the government can and should act upon immediately to save and create jobs plus accelerate equity investments in the mining industry.

The Terms of Reference for the Task Force are included as Appendix A.

The Task Force would like to thank Pierre Gratton, President and CEO of The Mining Association of British Columbia, for his contribution to the preparation and writing of this report.

The Task Force would also like to acknowledge the following individuals for their contributions to this report: Brian Battison of Taseko Mines Limited, David Parker at Teck, Garry Eng at PricewaterhouseCoopers LLP, Rick Neufeld at Fraser Milner Casgrain, David Scott and his colleagues at CIBC World Markets, Lorne Sivertson from Victoria, George Meadows, Tom Isaac of McCarthy Tetrault, Gavin Dirom of AME BC, Andrew Thrift of Terrane Metals and David McLelland of AME BC.

## Priority Recommendations

To respond effectively and expeditiously to the current mining industry downturn and liquidity crisis, the Mining Economic Task Force recommends that the provincial government act immediately upon the following four priority recommendations contained in this report. These recommendations are listed here in order of priority, each with the number corresponding to where it appears in the body of the report.

**Recommendation 1:** Lower government taxes in exceptional times and ease the administrative tax burden.

- a) Reduce the tax rate for the British Columbia Mineral Tax (BCMT) to 10 per cent permanently and enhance the value of this reduction in the short term by going lower over the next few years, i.e. six per cent for 2009, eight per cent in 2010, reverting to 10 per cent in 2011 and forward.
- b) Provide a two year tax deferral of payment of the BCMT to address short-term cash flow challenges at operating mines.
- c) Reduce the statute of limitation for the BCMT from six to four years (the same as for BC's provincial sales tax) prospectively effective January 1, 2009.
- d) For the purpose of calculating PST, revise the definition of production activities to include all activities undertaken on site (e.g. all work performed by mobile equipment on a mine site) and all new mine construction and equipment.

**Recommendation 4:** Create a Job Protection and Critical Industries Commission with a finite life span.

**Recommendation 6a:** The province should advocate to the federal government that it expand flow-through eligibility to include brownfield exploration and development expenditure on a temporary 2-year basis

**Recommendation 2:** Create a British Columbia Government-sponsored "Mining Industry Catalyst Fund" (MICF).

## **Part 1: Introduction**

As a result of rapidly deteriorating global economic conditions, British Columbia (BC)'s economic prospects have dimmed. Though BC is well-positioned relative to other Canadian jurisdictions, the province's export-oriented economy is exposed to the precipitous decline in global commodity prices. The BC Business Council, in its 2009 Economic Forecast, expects the province to post virtually no economic growth on a year-over-year basis in 2009. To assist it in addressing the economic downturn, the provincial government has established a Mining Economic Task Force (METF) to explore options for maintaining the sector in the face of the current global economic downturn.

This report will provide some context for the sector, outline some of the challenges and then proceed to recommend actions for government's consideration.

## **Part 2: The State of the Industry**

The global mining industry has been rocked over the past few months. The economic turmoil originating in the United States has spread across the world, leading to major, rapid declines in stock prices and ongoing discouraging economic signs across many economic indicators. The lending crisis has placed exploration and mining companies at serious risk, unable to secure capital to finance growth or strengthen balance sheets. In addition, commodity prices have fallen significantly (for example, copper has fallen from as high as \$4.00 U.S. to as low as \$1.30 U.S. per pound and current expectations are for a large drop in steelmaking coal prices). Both factors are having a very significant and sudden impact on the global mining industry. A slowdown in exploration activity that began in mid-2008 is worsening as this sector struggles to raise financing for exploration activity. Mining operations, while more resistant to market instability, are now in a mode of significant restraint. Mines have been closed or scaled back, planned mine expansions and new projects have been deferred or cancelled and investment in processing facilities has been postponed or stretched out over longer periods. Many companies have seen stock price declines exceeding 50 percent and in some cases over 90 percent – all firms are now engaged in serious cost-control measures.

Analysts predict mineral commodity prices may remain low for some time but that the industry will ultimately return to another protracted upturn in mineral prices, possibly greater than the previous, driven by the cancellation or postponement of development projects and the rapid industrialization of emerging markets. For several years, the province has worked to clearly establish itself as Canada's Pacific Gateway, capitalizing on the demand for minerals and metals in emerging markets in Asia, particularly China and India. BC is extremely well-positioned to meet this growing demand. The province's mineral potential is among the best anywhere, hosting vast reserves of steel-making and thermal coal and metals such as copper, gold and molybdenum. The provincial government has taken many important steps – improving its tax competitiveness, streamlining regulatory requirements and investing in the province's geosciences mineral data collection and analysis – to enhance BC's reputation as an important

### **Operating Mines & Smelters**

The number of operating mines in BC does vary over time as operations come online, are put into "maintenance" and are reopened in the face of changing conditions, market or otherwise.

This list is of mines that are operating or have been operating in the past year.

1. Brule (Western Canadian Coal Corp.)
2. Coal Mountain (Teck Coal)
3. Elkvew (Teck Coal)
4. Endako (Thompson Creek Metals Ltd.)
5. Fording River (Teck Coal)
6. Gibraltar (Taseko Mines Limited)
7. Greenhills (Teck Coal)
8. Highland Valley Copper (Teck Cominco Limited)
9. Huckleberry (Huckleberry Mines Ltd.)
10. Kemess South (Northgate Minerals Corporation)
11. Lexington-Grenoble (Merit Mining Corp.)\*
12. Line Creek (Teck Coal)
13. Max (Roca Mines Inc.)
14. Mount Polley (Imperial Metals Corporation)
15. Myra Falls (Breakwater Resources Ltd.)
16. QR (Cross Lake Minerals Ltd.)\*
17. Quinsam Coal (Hillsborough Resources Ltd.)
18. Willow Creek (Western Canadian Coal Corp.)\*
19. Wolverine (Western Canadian Coal Corp.)
20. Trend (Peace River Coal)

mining jurisdiction, and industry has responded with record exploration levels and the opening of new mines in the recent period of economic growth.

It is important that this competitive advantage and these achievements not be lost. The strategic significance of BC mining remains, and steps should be taken to ensure that the industry emerges from the current crisis in a position of strength.

In terms of a public policy response to these challenges, the industry does not seek government involvement in controlling production output, trade or prices, or in sustaining uneconomic operations – the market mechanism continues to be the best regulator of these variables. However, specific actions can be taken in the short term to protect industry jobs and operations. Other actions can be undertaken to help brace for a protracted downturn and an eventual recovery. Ensuring access to capital will be critical over the coming months. The ability of exploration projects, proposed new mines and existing mines to weather ongoing permitting delays or hold-ups due to a lack of federal and provincial harmonization has worsened. The importance of competitive and affordable transportation services and infrastructure has become more critical. The downturn in the mining industry also increases the impact of specific BC policies such as the carbon tax and cap and trade initiative, and the importance of policy instruments to support the sector's ability to contribute to the fight against climate change.

### **Part 3: The British Columbia Mining Sector**

There are currently 17 coal and metal mines operating in the province (down from 20 just 4 months ago), two smelters, over 30 industrial mineral operations, over 20 projects at different stages of development and over 350 exploration projects. One of the province's largest export-oriented industries, mining is very important to rural and remote communities across the province, paying the highest wages of any industrial sector.

The British Columbia mining and exploration sector provides the following employment:<sup>1</sup>

- Mining – 14,000.
- Support activities for mining and oil & gas extraction – 8,100.
- Non-metallic mineral manufacturing – 8,400.
- Primary metal manufacturing – 6,000.
- Indirect jobs based on an inferred 2.5 multiplier



- 48,750.

- Total inferred employment – approximately 85,250.

Indirect employment includes mining suppliers, auditing and law firms.

While mining is often the lifeblood of many rural and remote communities, the sector's significance to Vancouver should not be overlooked. The city is home to approximately 800 mining and mineral exploration companies of various sizes, including major international companies such as Teck and GoldCorp. Over 400 related consultant and supplier companies support the sector, including geological/geotechnical, law and accounting firms. While Vancouver competes in some fashion with international mining centres such as London, Toronto and Perth, the city is clearly the world's centre for mineral exploration and sells its expertise around the globe. As Peter Brown of Canaccord Capital Corporation has said "Canadian miners and explorationists are world leaders in their industry and, in fact, export this expertise to all parts of the globe. Mining and mining finance are core industries in our province and Vancouver is world-renowned as a centre for this expertise."

The city also hosts major domestic and international investment companies with an emphasis on exploration and one of the world's premier technical mineral exploration conferences, Mineral Exploration Roundup, is held annually in Vancouver. Finally, mined material is responsible for over 50 % of Vancouver port volume and the majority of BC rail traffic.

BC is Canada's largest coal producer, 90% of which is high quality steel-producing coal. Coal has a big future in the province, which hosts an estimated 20 billion tonnes of reserves. Almost exclusively exported, coal generated 27% of provincial mining revenues in 2007, derived from sales almost entirely outside Canada. BC's top coal markets, from largest to smallest, are Japan (33%), South Korea (20%), Germany (7%), Brazil (6%), United Kingdom (5%), Taiwan (5%), Netherlands (4%), Italy (4%) and Turkey (4%). China and India remain under-exploited potential markets for BC steelmaking and thermal coal.

Approximately 75% of BC's metal and mineral products are exported, with Japan being the destination for about 50% of the total product.<sup>ii</sup> One quarter of product is sold within Canada for the domestic market. British Columbia is Canada's largest producer of copper, the metal representing 29 % of the province's mineral revenues in 2007.<sup>iii</sup> The province is also the country's only producer of molybdenum. Other BC mineral products include gold, silver, zinc, lead, magnesite, gypsum, limestone, dimension stone and aggregate.

Payments to government vary with the size of the sector, the number of operations and commodity prices. In 2007 the industry paid approximately \$463 million to government compared to \$799 million in 2006 and \$617 million in 2005. These include direct payments only and do not include multipliers.

#### Gross Mining Revenues<sup>1</sup>:

- 2007 – \$6.9 billion
- 2006 – \$8.1 billion

#### 2007 Mining Exports

- Metallic Mineral Products – \$3.4 billion
- Coal – \$2.4 billion
- Approximately 18.7% of all commodity exports<sup>1</sup>
  - Represents 58.1% of commodity exports to Japan
  - Represents 36.1% of commodity exports to Europe

Over the last several years, exploration spending in British Columbia has increased significantly, supported by high commodity prices, BC's favourable geology and a number of positive measures introduced by the BC government. British Columbia rated third for exploration and deposit appraisal expenditures in 2007 and experienced one of the fastest rates of growth in exploration spending among Canadian jurisdictions from 2002-2007. Exploration spending in 2008 was 12 per cent less than in 2007, the first decline since 1999, though still the second highest level in BC history. Expenditures in 2009 are expected to drop below 2008 levels.

**BC Exploration  
Expenditures (millions)**

2005 –	\$218
2006 –	\$344
2007 –	\$428
2008 –	\$367

In a 2007 survey by Natural Resources Canada of the top 100 exploration and deposit appraisal projects, as indicated by expenditure, 20 were in British Columbia. Ontario placed second with 16 projects.<sup>iv</sup>

#### **Part 4: British Columbia Has Acted To Support Mining**

The BC government has taken many steps over the past number of years to improve business competitiveness and that have been beneficial to the mining industry. **The Task Force strongly supports actions taken by government to date and recommends that it stay the course with respect to these commitments:**

- Eliminated the PST on production machinery and equipment.
- Eliminated the Capital Tax.
- Reduced Corporate Tax rates from 16.5 per cent to 11 per cent.
- Reduced personal income tax rates such that BC now has the lowest income tax rate for persons earning under \$111,000 of any Canadian jurisdiction, and the second lowest (after Alberta) for those earning over \$111,000.
- Introduced the Mineral Exploration Tax Credit Program and consistently renewed the super-flow-through program, which is a significant contributor to BC's record levels of exploration.
- Extended the New Mine Allowance.
- Creation and investment in Geoscience BC, leading to focused, successful geoscience mapping in areas of strategic geological significance to the province.
- Announcement of a new policy of resource revenue sharing with First Nations.
- Funding to complete environmental baseline studies and First Nations consultations on the proposed Highway 37 powerline.
- Enhanced Mineral Exploration Tax Credit in pine beetle affected areas

These measures have helped to make BC one of the most attractive investment destinations in the country. These measures must be maintained.



## **Part 5: Downturn Presents Particular Challenges to British Columbia Mining Sector**

The decline in commodity prices – with the exception of gold and silver – has been severe both for its extent and for the speed with which it has occurred. It has taken place on the heels of what many analysts had been describing as a “supercycle”; a protracted period of high commodity prices brought on by the rapid industrialization of China and other countries including India, Brazil and Mexico. In this respect, the commodity price decline caught the industry off-guard, an unexpected interruption triggered by the ripple effects of the US financial crisis. The supercycle fundamentals remain, however, which suggests that the turnaround, when it comes, could be equally dramatic. The long-term prognosis of a robust mining sector further underscores the importance of taking action to protect BC’s mining investments and Vancouver’s preeminence as a global exploration centre and to continue to position the province as a major global supplier of commodities, mining supplies and services to the emerging markets.

The immediate impact of the lending crisis and declining commodity prices has been the closure or suspension of several BC mines, including New Afton, Greenwood and Willow Creek. Other mines have had to undertake lay-offs (e.g. Gibraltar, Mt. Polley) or have announced a reduction in workforce (Teck) and further lay-offs are possible across the province. New mine development projects have been suspended or delayed (Blue Pearl, Ruby Creek, Galore Creek, Mt. Milligan) and mineral exploration activity has slowed, as the raising of exploration dollars has become near impossible due to low commodity prices and low liquidity.

Steps can and must be taken to ensure that the current situation does not worsen. Companies themselves must be the prime actors in both responding to the downturn and positioning for the recovery. However, governments can assist by facilitating access to reasonably priced capital under certain circumstances; by reducing costs; and by providing a supportive policy environment. The Task Force’s analysis and recommendations are focused on three key objectives:

- To bridge the current mining industry downturn and liquidity crisis.
- To stimulate mineral exploration and development.
- To position British Columbia for the recovery and long term growth of the industry.

The Task Force makes 13 recommendations clustered in each of the three areas.

## *Bridging Through the Current Mining Industry Downturn and Liquidity Crisis*

### **TAX ISSUES**

The significant short-term declines in commodity prices, expected to persist through to the end of 2009 or longer, could threaten the viability of currently operating mines even though their long term competitiveness is strong. If these companies fail, the ability of the industry to contribute to British Columbia's recovery once the eventual upturn begins will be jeopardized. The government can help ensure BC's mines continue to operate and protect jobs by taking a number of measures in the area of taxation and programs. At the same time, the government can make certain policy changes to enhance the long term competitiveness of the BC industry:

**Recommendation 1:** Lower government taxes in exceptional times and ease the administrative tax burden.

- a) Reduce the tax rate for the British Columbia Mineral Tax (BCMT) to 10 per cent permanently and enhance the value of this reduction in the short term by going lower over the next few years, i.e. six per cent for 2009, eight per cent in 2010, and then revert to 10 per cent in 2011 and forward.
- b) Provide a two year tax deferral of payment of the BCMT to address short-term cash flow challenges at operating mines.
- c) Reduce the statute of limitation for the BCMT from six to four years (the same as for BC's provincial sales tax) prospectively effective January 1, 2009.
- d) For the purpose of calculating PST, revise the definition of production activities to include all activities undertaken on site (e.g. all work performed by mobile equipment on a mine site) and all new mine construction and equipment.

### **FINANCING VEHICLE**

In addition to lower metal prices, the most critical issue facing the industry at the moment is access to capital. The dislocation in the credit and equity markets has significantly constrained the amount of capital available to finance growth in Canada and/or to strengthen balance sheets for resource companies. At present a tremendous amount of capital is "sitting on the sidelines" waiting for positive signals to invest.

Federal and provincial governments have at their disposal some of the largest professional wealth management firms in Canada. Pension funds such as BCIMC, OMERS, OTTP, CPP and the Caisse de Depot are some of Canada's most successful and sophisticated investment managers. Given their stature and resources, market participants often look to these firms for leadership in providing capital to Canadian corporations. With the recent downturn in the markets, many of these pension funds are already acting as catalysts to assist Canadian companies in raising capital in the marketplace that would otherwise be unavailable or available in smaller tranches and at significantly more expensive terms.

Recent examples of offerings where pension fund managers acted as catalysts to encourage broader market participation are described below:

- **BCIMC/TimberWest** – In December 2008, BCIMC provided a \$100 million financing via a nine per cent, 5-year convertible debenture and agreed to back-stop a \$50 million rights offering. \$75 million of the capital raised was used to repay existing credit facilities with the balance used for working capital to finance the company's business plan;
- **CPP/Agnico Eagle** - In November 2008, CPP agreed to purchase \$290 million of units (share + ½ purchase warrant) in Agnico Eagle. The transaction was structured to allow the public to purchase up to 50 per cent of the deal; however, if there was not demand in the public markets CPP agreed to buy the entire deal. CPP was paid a 'back stop' fee in addition to receiving a discount on the unit deal. The deal was oversubscribed in the public tranche.

In both of these cases, the leadership of the pension funds attracted reluctant investors to "open their wallets wider" and participate in a more meaningful fashion than they would otherwise, were it not for the leadership shown by the catalyst investor.

British Columbia could take the lead in an initiative to create a pool of funds which would be used to "catalyze" private capital to invest in the mining sector. Under this proposal the government would raise debt money and place the capital with the British Columbia Investment Management Corporation, which would be charged with investing the funds prudently in corporate securities of British Columbia resource companies. The government would establish the size and general investment criteria by which each Resource Catalyst Fund would operate. It would be expected that qualified mining companies in which the Resource Catalyst Funds could invest would be limited to British Columbia Resource Corporations with either significant assets located in BC and/or where the proceeds for the catalyst financing would be used to develop BC mining assets.

The fund managers would be charged with a duty of prudence and would be required to cover all costs and make a return at a defined amount above the government's cost of borrowing. The MICF would likely act as a lead financier and would be expected to attract significant follow-on financing from other market participants, thereby significantly expanding the impact of any initial amount of capital invested into the fund. Since governments have the lowest cost of funds, these funds could be invested in corporate debt or equity securities on more favourable terms, thus providing the potential to generate profits for the taxpayer.

The fund would be managed by some of Canada's top investment management firms who already have significant expertise in investing in Canadian resource companies. The government would retain ultimate control through determining both the size of the funds committed and the investment criteria used by the Resource Catalyst Fund Manager. The only significant item the government would not control is the choice of which particular mining company the Catalyst Fund invests in, as such decisions are best left to the judgment of the pension fund managers. This program could be repeated in other provinces with similar pension management mechanisms as well as by the federal government through the Canada Pension Plan.

**Recommendation 2:** Create a British Columbia Government-sponsored "Mining Industry Catalyst Fund" (MICF).

## DEBT FINANCE SUPPORT

The current crisis in the financial market has had a particularly devastating impact on the fixed income market. The bond market has virtually seized up as lending has stopped. In some cases trade credits and accounts receivables financing have been impossible to obtain. The commercial paper market, by which operating companies finance working capital, has disappeared. There are many other examples where the lack of adequate financing opportunities has led to difficulties for the mining sector at all levels.

Companies themselves have got to take the lead in addressing the problems of financing. Many companies have already done so by deferring capital spending, workforce reductions and other measures designed to preserve cash. However, the extent and scope of the freeze in the financial market carries with it problems that companies alone cannot address.

The BC government could assist with this challenge by using its balance sheet to assist qualifying British Columbia companies who cannot get access to credit and/or reduce the cost of the credit where that cost would otherwise be prohibitive to a company. This would be a temporary measure and would use guarantees lasting for a defined period, e.g. five years. For terms beyond five years the loan rate would be re-set once the guarantee expired to the rate appropriate for that company. Returns to the taxpayer could be addressed through measures such as commodity price sensitive repayment terms.

**Recommendation 3:** Create a facility to provide five year guarantees for loans for qualified British Columbia resource companies.

## PROTECTION OF JOBS IN OPERATING MINES

In the event that the impact of the credit crisis and low commodity prices is so severe that some viable operations are faced with closure, at a cost of considerable job losses, the Task Force recommends that the government of British Columbia take early action to create a new agency modeled on the former Job Protection and Critical Industries Commission<sup>1</sup>. The new agency would have a sunset provision, would be tactical in that it would not "serve all", would only deal with probable "survivors", would not imbed subsidies and would not duplicate federal programs but instead would look for federal cooperation and participation as appropriate. It would base its

<sup>1</sup> The British Columbia Legislature established the Critical Industries Commission in 1985, during the steep economic recession in BC and Canada beginning in the early 1980s and completed its work in 1987. The Job Protection Commission was a successor agency to the Critical Industries Commission, established by legislation in 1991. General economic conditions had improved in the early to mid 1990s, but market access for lumber into the USA and low commodity prices again made survival of the mining and forestry sectors difficult in BC. The stated purpose of the Job Protection Commission was to "help companies bridge through to a time when prices and market access improve." The Critical Industries Commission reported in 1987 that during its operation it prepared Economic Plans for thirteen clients, preserving roughly 2,700 jobs. The Job Protection Commission in its 1997 Annual Report stated that from 1991 to 1997 it saved 14,500 jobs. The Commission 2001 Report stated that it had preserved 5,600 jobs in 2001 alone. The Commissions were active across a number of industrial sectors, not just forestry and mining. They worked without a large bureaucracy, with all affected parties, including other levels of government, contributing to solutions. They did so without imbedding permanent subsidies.

initiative on the likelihood of making a return from investment upon economic recovery sufficient to repay the cost of any support provided. It would have defined priorities focusing on maintaining or improving the competitive position of firms. It would have access to tools appropriate to the circumstances, which would be removed after some clearly defined period. It would operate in full recognition of existing trade agreements. The agency could target not just the BC mining industry but the provincial economy as a whole. Among the tools that could be available include:

- Worker/owner cooperation and job protection agreements.
- Provincial and local governments' property tax remission or deferral agreements.
- Remission or deferral of provincial sales taxes and other taxes that increase production and transportation costs.
- Regulatory relaxation where doing so would protect jobs for a period.
- Relief from the second, higher cost, component of BC Hydro's two tiered RS 1823 power pricing schedule for industry.
- Professional advisory assistance, mediation and counseling provided for companies to help them find ways to reduce costs and become more competitive.
- Work with firms to develop alternate uses for beetle-kill pine in energy generation and other applications.
- Information on and assistance in gaining access for BC firms to federal loan, export assistance, grant and training programs.
- Work with banks and credit unions to arrange loans, re-schedule payments and convert loans to equity.
- Establish a BC credit facility to encourage lenders to lend. This should be complementary to and not duplicate federal efforts with the Canadian Lenders Assurance Facility. It would essentially provide a BC government debt guarantee for bank loans as part of an Economic Plan, secured by assets of the borrower. The government would limit the amount of such guarantees by firm and in total.
- Government prescribed actions to address long term legacy issues could be deferred (e.g. environmental legacy clean-up at Vancouver Wharves).
- Utilize the Resource Catalyst Fund (Recommendation #2) to provide financing support to client companies.

**Recommendation 4:** Create a Job Protection and Critical Industries Commission with a finite life span.

*Stimulate Mineral Exploration: Governments set the stage and industry will invest the money*

The province should consider a number of measures to ensure that BC's relative proportion of Canadian exploration spending is maintained or enhanced by building on actions already undertaken. The following proposed recommendations would enhance and/or stimulate grassroots exploration by: a) investing in BC's geosciences data; b) improving the attractiveness of the flow-through share investment vehicle; and c) enhancing the tax treatment of exploration on or near closed mine sites.



## GEOSCIENCE PROVIDES THE INFORMATION BASE

Geoscience is a critical component in attracting investment in the competitive global market. Geoscience also opens up new areas for exploration and possible development. A knowledge base that is continually expanding stimulates new exploration, while minimizing the potential impact of duplicative exploration activities on the land. It also contributes to the health of the junior sector, a critical part of the mineral industry. An active exploration industry in turn helps to develop clusters of economic activity in support of exploration and mining, attracts talent and encourages the development and deployment of new technologies. It has been estimated that every \$1 invested in geoscience stimulates \$5 in new exploration investment.

There is a fundamental relationship between the quality and relevance of the geoscience knowledge base and exploration activity. If prospectivity, land tenure, and the socio-political environment are equal among jurisdictions, the geoscience knowledge base will strongly influence a company's decision to invest. Geoscience gives a competitive edge in the global investment climate.

Over the past several years, through the creation and support of the private-sector led Geoscience BC, the BC government has significantly enhanced the province's geosciences capacity, fostering new exploration, discoveries and interest in BC. New programs planned by Geoscience BC, estimated at \$20 million over three years, would provide immediate benefit to communities: 10 to 20 per cent of the expenditure would be spent in local communities on services and supplies, and some seasonal local hiring. The success of the regional work undertaken by Geoscience BC to date has been a major contributor to the increased exploration in the province. Increased expenditures for exploration, mapping and geological research to be carried out by the BC Geological Survey provide a vital tool for the mineral explorer in the province.

Long-term benefits would come from the follow-up exploration spending (mineral exploration companies spend approximately 20 per cent of their exploration investment locally) and new discoveries, which would hopefully lead to new metal reserves and mines. The establishment of a center for excellence in innovative high technology mineral exploration in conjunction with industry would keep funds spent elsewhere in the world here in British Columbia, enhance the professional employment of internationally recognized expertise, maintain and grow our technological advantages and allow the export of the technology to other parts of the world. With the global recession curbing exploration expenditures around the world, the competition for exploration activity will intensify. It is especially timely for BC to continue its strategic investment in geosciences.

**Recommendation 5:** Invest \$20 million over three years for programs in high priority areas identified by Geoscience BC; enhance funding for the BC Geological Survey of the Ministry; and, allocate funding for the establishment of a center for excellence in innovative high technology mineral exploration in conjunction with industry.



## ENHANCE THE FLOW THROUGH SHARES PROGRAM

Flow-through share financing has been a successful structure for over 20 years whereby the government has acted as a catalyst to increase the levels of resource property exploration and development in Canada. In strong markets for mining stocks, flow-through shares tend to be popular among investors. Conversely, in weak markets flow-through shares are significantly less popular, since they are predominantly an investment rather than a tax shelter. Prior to the global financial crisis, 2008 had been a strong year for mining stocks. In 2008, approximately \$300 million in flow-through shares were issued by Canadian mining companies, compared to \$800 million in 2007.

Investors in flow-through share offerings completed prior to the market meltdown have experienced losses on both a pre and post-tax basis. Therefore, unless market conditions improve, 2009 is expected to see a significant reduction in flow-through financings relative to 2008, contributing to already worsening exploration activity. By acting as a catalyst to assist mining companies in attracting greater amounts of private market funding at more attractive terms than would otherwise be possible without government support, governments could help protect mineral exploration activity during this difficult period.

A significant amount of money raised through flow-through financing was not deployed in 2008 while some operating companies were unable to finance brownfield exploration or expansions. This gap could be addressed if the flow-through program was amended to allow this application of flow-through funds to exploration and development at brownfield sites.

**Recommendation 6:** The province should advocate to the federal government to:

- a) Expand flow-through eligibility to include brownfield exploration and development expenditure on a temporary two-year basis.
- b) Make the super flow-through share program a permanent feature of the tax system or, at a minimum, extend the program for an additional three years. In addition, the BC Government should implement a temporary increase in the deduction gross-up to 125 per cent for development spending and 150 per cent for exploration spending to flow-through share financing, and increase the BC Mining Flow-Through Share Tax Credit of eligible costs from 20 to 30 percent (similar to the Budget 2007 measure to increase the mineral exploration tax credit in pine-beetle infested regions).

## EXPAND CORPORATE INCOME TAX DEFINITIONS

In order for certain exploration expenditures to qualify as CEE and to benefit from the related federal and provincial tax incentives, a property must meet definition of a New Mine, but some of the definitions in the *Income Tax Act* should be made clearer. The Prospectors and Developers Association of Canada and the Mining Association of Canada have proposed that the definition be clarified such that if a mine site has not been in operation for five years, exploration work carried on or near the property qualifies as CEE. **We urge the province to continue its support of the industry's advocacy efforts with the federal government on this issue.**

**Recommendation 7:** Expand the definition of exploration under federal *Income Tax Act* to include spending on or near a closed property.

### *Position British Columbia for Recovery and Long term Growth*

Though many new projects have been cancelled or postponed as a result of the current economic downturn, a number of viable new projects continue to advance through the regulatory process and into construction. Steps can be taken to enhance the viability of new projects and thereby strengthen BC's position when commodity prices recover.

### **TAX TREATMENT FOR NEW PROJECTS**

The costs to complete engineering and feasibility studies and to guide a mine through the Environmental Assessment (EA) process are considerable and for BCMT purposes are only deductible from income generated by the yet-unconstructed mine. **Given the length of time it takes to permit a mine in BC, and the fact an EA review may be undertaken without a permit being issued, it would be beneficial if these costs could be pooled for BCMT, the same way exploration costs are.** Companies with operating mines in the province could then elect to add these costs to the expenditure pool of a mine already in production.

**Recommendation 8:** Pool development project feasibility study and permitting costs for deduction under BCMT.

### **EFFICIENT PERMITTING**

BC hosts about half of Canada's major new mine development proposals. Nevertheless, despite a lengthy and very buoyant commodity cycle over the past five to six years, only a few of these projects received their necessary approvals and proceeded to construction and development. Many in industry believe that this represents a significant lost opportunity and that, despite some notable improvements in the BC regulatory approval process, uncertain and lengthy timelines for exploration permits and access issues including the use of resource roads remain major concerns. Federal processes have been somewhat singled out, characterized by a lack of resources, coordination and a reluctance or refusal to harmonize with BC authorities on a consistent basis or to make timely decisions. The establishment of the Major Projects Management Office, though welcome and applauded by industry, has yet to deliver on its promise of a more streamlined and effective federal regulatory system.

**Recommendation 9:** The province should aggressively pursue with the federal government a harmonized/single review for environmental assessment and permitting under provincial direction, including delegation and, if necessary, devolution. Specifically, it is recommended that the province work with the federal government on the following issues:

- a) **Clarify expectations and requirements for listing tailings impoundment areas (TIAs) on Schedule II of the Metal Mining Effluent Regulations (MMER), with the objective of expediting the existing Schedule II process.** Note that in the longer term

the listing of TIAs under Schedule II should be repealed or significantly changed such that a regulatory impact analysis statement (RIAS) is not required to deposit tailings into a fish-bearing water body. The RIAS process was not designed for specific project-level decisions and is unnecessarily duplicative and cumbersome as these issues are already addressed in the environmental assessment.

- b) **Encourage reasonable and practical application of the federal *Fisheries Act* to mining developments.** Since federal EA decisions typically lag provincial EA decisions in BC, the *Fisheries Act* authorization issued by DFO is often the critical path permit to begin construction. The application of DFO's "no net loss" policy seems to have considerable room for interpretation; reasonable interpretation of what constitutes harm and compensation for fish habitat would allow more timely project review while still being protective of fisheries resources.
- c) **Amend the *Canadian Environmental Assessment Act* (CEAA) to allow delegation to provincial EA processes on a province-by-province basis.** The CEAA process for determining federal responsible authorities and scoping requires the proponent to provide information out of sequence of when it naturally becomes available in the project design cycle. The result is a federal process that is not properly equipped for reviewing industrial projects due to de-harmonization from the provincial process and duplication of effort. Delegating management of the EA process to the BC Environmental Assessment Office (EAO) would allow federal agencies to focus their limited resources on technical review related to their permits and authorizations, rather than duplicating steps that are handled well by the BC EAO. The CEAA is under review in 2010 so there is an upcoming opportunity to remedy some of the structural flaws in the Act.

## FIRST NATIONS AND MINING

The mining industry acknowledges that it must earn its "social license to operate" from the communities affected by its activities. Among the affected communities are those of the First Nations of British Columbia who have special rights defined in law. The industry believes that constructive dialogue and successful engagement with BC's First Nations and other communities of interest will enable it to earn and maintain its social license. By working with First Nations, the mining industry believes it can offer one of the most tangible and meaningful ways for First Nations to achieve a greater degree of economic self-sufficiency, to obtain employment and opportunity for a large number of Aboriginal youth, and to provide opportunities for Aboriginal businesses to develop and grow by supplying the mining sector with goods and services.

These opportunities will only be realized, however, if companies are able to proceed with new developments. This in turn is dependent upon the levels of certainty in the province around governmental approval processes and decision making; uncertainty can make it very difficult to finance the projects that would otherwise bring economic opportunities to all British Columbians.

The mining industry welcomes the initiative by the Government of British Columbia and First Nations to forge a new relationship in British Columbia. As these efforts continue, the mining industry believes that the participants must:

- Agree on what constitutes adequate consultation and accommodation.
- Create well-defined and transparent government decision making processes with defined and accountable timeframes.
- Ensure First Nations have the capacity to participate in procedural and decision making processes.

The mining industry believes that with these issues properly addressed it can develop for the benefit of all citizens of the province.

**Recommendation 10:** To further the objectives of clarity, certainty and clear timelines for proposed mining projects, to look at opportunities for improving the opportunities for First Nations resulting from exploration and mining and to enhance First Nations capacity for engaging in and benefitting from mining activity, the Task Force:

- a) Asks the government to clarify the roles and responsibilities of all parties to the decisions regarding project permitting and approvals.
- b) Appreciates and applauds the province's decision to establish a framework for resource revenue sharing with First Nations for new mines. The Task Force encourages government to implement this policy as soon as possible as there are significant opportunities to advance existing projects.
- c) Urges the government to invest in First Nation training initiatives, including long-term funding for programs such as the Aboriginal Training Program offered by the Industry Training Authority (ITA), BCIT's Aboriginal Training Program in Mining, and the Northwest Community College's School of Exploration and Mining.

## ADDRESS TRANSPORTATION COSTS

The mining industry is responsible for over 60 per cent of rail revenue and almost 70 per cent of port volumes, making it extremely reliant on competitively priced and efficiently run transportation services to compete globally. However, the structure of rail transportation in Canada results in the two major railways having a monopoly position in large areas of the country, including British Columbia. This monopoly situation can lead to difficulties for shipper companies in terms of both rates and service levels. Federal policymakers have long recognized the captivity of certain shippers, particularly coal mines, and the need for processes to countervail the market power of railways that enjoy these monopolies. Unfortunately, the remedial processes that have been enacted in federal transportation legislation have, in practice, been of limited assistance to shippers in the mining industry. The consequences to British Columbia have included lost mine productivity and output, lost earnings to both the mines and the province, lost investment in plant and equipment, lost opportunities in export markets, and damage to our industry's reputation as a reliable supplier of commodities. The province of British Columbia can assist the mining industry to solve both rate and service issues by

advocating the need for direct remedies that will enable competition for rail transportation services for captive shippers like British Columbia's steelmaking coal industry.

The north shore of Vancouver is the country's largest and most diverse commodity export hub and a critical link to overseas markets for steelmaking coal, mineral concentrates and other bulk and break bulk goods. Current constraints in the rail infrastructure accessing the north shore, and the need for cooperation between the two major railways to enable commodities originating on the CP line to access the CN-controlled north shore rail infrastructure, results in a failure to fully utilize existing capacity; lack of surge capacity in the system; and unreliable service levels.

In order to fully understand the consequences for British Columbia of the processes governing the commercial relationships between the federally regulated transportation suppliers and the province's mining companies, the government could conduct a provincial review of rail and port pricing and service practices and the impact of these practices on the BC mining industry and other resource sectors. The results of the review could be used to identify solutions that it should seek through the current federal service review process, as well as other consultations between the province and the Government of Canada on matters of pricing, service and the potential for new legislative remedies.

**Recommendation 11:** The government should undertake a formal review of the impact of monopolistic rail and port pricing and service practices on the mining industry in British Columbia and the degree to which existing statutory remedies are effective in countervailing these monopolies.

## INVESTMENT IN INFRASTRUCTURE

Governments across Canada, including BC, are accelerating infrastructure investments as a means of stimulating the economy during the downturn while simultaneously enhancing industry competitiveness. The development of British Columbia, and indeed its very health and growth, has always relied upon a vibrant interconnection of roads, railways, power and communications technologies. Unfortunately, there are still areas in this province that do not enjoy the benefits of the modern physical infrastructure that so many British Columbians take for granted.

In northwestern BC, for example, the Highway 37 corridor from Meziadin Junction to Dease Lake is poorly served by unreliable and expensive diesel power that often fails, resulting in brown-outs to the service area. These power interruptions restrict rural communities and isolated regions from realizing their full development potential. Infrastructure projects of this nature have the potential to result in new opportunities for rural and urban communities, providing jobs and skills training during planning, implementation and construction, and ongoing employment in servicing and maintenance. New roadways and hydroelectric power in the Highway 37 corridor also have the potential to open up new opportunities for high-paying jobs in mining, forestry, and power generation, while revitalizing existing tourism, guide outfitting, transportation, and supply industries in the northwest.

The Highway 37 power line and other major BC infrastructure projects such as Site C would benefit current and future mining investments in the province. Logging road upgrades to



enhance mine and exploration access represent other opportunities for bettering the competitiveness of current, and viability of future, projects.

Lastly, there is growing concern about the capacity of BC's port infrastructure to service the mining industry's needs.

**Recommendation 12:** Accelerate the development of public infrastructure as part of the fiscal stimulus packages being considered by Ottawa and BC that would encourage and support new exploration and mining investment and undertake a study to assess the ability of BC's ports to meet current and future needs of the mining industry.

## **FILLING THE NEED FOR TRAINED PEOPLE**

The BC Mining Labour Market Task Force has developed a comprehensive analysis of the forecasted human resources challenges to be faced by the mining industry over the next decade under a number of scenarios, including no-growth, low growth and strong growth. Despite the recent economic slowdown, retirement and attrition will continue to significantly impact the Canadian and BC mining industry over the next five to 10 years. Even in the case of an industry contraction over the next one to two years, followed by modest growth, there will still be a shortfall of 8,000 or more jobs in BC's mining industry. This is a very conservative estimate based almost entirely on the known baby boomer retirements that are projected to occur. We need to prepare now for this pending reality.

The ability to sustain our industry, prepare for retirements and growth depends on what we do today during these challenging economic times to ensure a well trained, educated and diverse workforce.

The BC Mining Labour Market Task Force has put forward a number of recommendations to the BC government to partner with industry and other stakeholders to meet the sector's human resource challenges.

**Recommendation 13:** The Task Force recommends that the government partner with the BC Labour Market Task Force on appropriate measures to help address the future human resource needs of the mining industry.

## **Part 6: Conclusion**

British Columbia's exploration and mining industry rebounded over the past decade to become a critical part of the province's economy and economic future. High commodity prices, a competitive tax regime, strong geology, competitive energy costs and several other factors combined over the past several years to stimulate record levels of exploration, new mine openings and the advancement of many new projects. The impact of the current liquidity crisis and economic downturn, however, has been severe for both its extent and the speed in which it has occurred, putting at risk the gains of the past decade and the opportunities that lie ahead.



The Task Force's recommendations have been put forward to assist governments in responding to the current situation. Though negative economic impacts across the mining sector are inevitable – indeed have already been felt – the Task Force believes that the measures outlined in this report would help manage and mitigate these impacts on the industry, its workers and communities and position the industry for a stronger recovery when commodity prices rebound and the lending markets recover.

The Task Force would like to conclude by thanking Premier Gordon Campbell and the Minister of State for Mining Gordon Hogg for giving us this opportunity to contribute to the public policy process and to put forward our best ideas on how to support the economic well-being of the province and its citizens.

## **Appendix A: Terms of Reference**

### **PURPOSE:**

As announced by the Premier of British Columbia on December 5, 2008, the Mining Economic Task Force (Task Force) will identify key opportunities and make recommendations to help mitigate the effects of the global economic downturn on British Columbia's mineral exploration and mining industry.

The Task Force will assist in the identification of immediate opportunities to support the sustainable growth of BC's minerals and metals industry.

The Task Force will serve as a vehicle for immediate and open communication.

Task Force members will not be expected to reach consensus or agreement, nor is the Task Force a decision making body.

### **PRINCIPLES:**

The work of the Task Force will seek to support and enhance the mineral exploration, mining and smelting industries, and will endeavour to:

- Ensure the competitiveness of the minerals sector
- Protect the health and safety of workers
- Respect First Nations rights and interests
- Protect the environment

### **MEMBERSHIP:**

The members of the Task Force are chosen based on their expertise and ability to receive, consider and provide new perspectives and ideas. Task Force members represent diverse interests and are listed below:

- |                     |                            |
|---------------------|----------------------------|
| • Horswill, Douglas | - Teck Cominco Limited     |
| • Segsworth, Walter | - Mining Association of BC |
| • Hallbauer, Russ   | - Taseko Mines Ltd.        |
| • Jones, Jim        | - Teck Coal                |
| • Pease, Rob        | - Terrane Metals Corp.     |

- Abraham, Brian - Fraser Milner Casgrain, LLP
- Brommeland, Lena - Association for Mineral Exploration BC
- Curry, Robin - Smithers Exploration Group
- O'Rourke, Jim - Copper Mountain Mining Corporation
- Lyons, Terry - Northgate Minerals Corporation

#### **OPERATIONS:**

The Task Force will present a report to the Minister's Council on Mineral Exploration and Mining on January 29, 2009. In the report, the Task Force will bring forward implementable recommendations for immediate action to help the mineral exploration and mining industry during the global economic downturn.

The Minister of State for Mining, and Chair of the Minister's Council on Mineral Exploration and Mining, will report to Cabinet on Task Force recommendations.

Terms of Reference adopted December 22<sup>nd</sup>, 2008.

## Appendix B: Summary of Recommendations

### *Bridging through the Current Mining Industry Downturn and Liquidity Crisis*

**Recommendation 1:** Lower government taxes in exceptional times and ease the administrative tax burden.

- a) Reduce the tax rate for the British Columbia Mineral Tax (BCMT) to 10 per cent permanently and enhance the value of this reduction in the short term by going lower over the next few years, i.e. six per cent for 2009, eight per cent in 2010, reverting to 10 per cent in 2011 and forward.
- b) Provide a two year tax deferral of payment of the BCMT to address short-term cash flow challenges at operating mines.
- c) Reduce the statute of limitation for the BCMT from six to four years (the same as for BC's provincial sales tax) prospectively effective January 1, 2009.
- d) For the purpose of calculating PST, revise the definition of production activities to include all activities undertaken on site (e.g. all work performed by mobile equipment on a mine site) and all new mine construction and equipment.

**Recommendation 2:** Create a British Columbia Government-sponsored "Mining Industry Catalyst Fund".

**Recommendation 3:** Create a facility to provide five year guarantees for loans for qualified British Columbia resource companies.

**Recommendation 4:** Create a Job Protection and Critical Industries Commission with a finite life span.

### *Stimulate Mineral Exploration: Governments set the stage and industry will invest the money*

**Recommendation 5:** Invest \$20 million over three years for programs in high priority areas identified by Geoscience BC; enhance funding for the BC Geological Survey of the Ministry; and, allocate funding for the establishment of a center for excellence in innovative high technology mineral exploration in conjunction with industry.

**Recommendation 6:** The province should advocate to the federal government to:

- a) Expand flow-through eligibility to include brownfield exploration and development expenditure on a temporary two-year basis.
- b) Make the super flow-through share program a permanent feature of the tax system or, at a minimum, extend the program for an additional three years. In addition, the BC Government should implement a temporary increase in the deduction gross-up to 125 per cent for development spending and 150 per cent for exploration spending to flow-through share financing, and increase the BC Mining Flow-Through Share Tax Credit of eligible

costs from 20 to 30 percent (similar to the Budget 2007 measure to increase the mineral exploration tax credit in pine-beetle infested regions).

**Recommendation 7:** Expand the definition of exploration under the federal *Income Tax Act* to include spending on or near a closed property.

***Position British Columbia for the recovery and long term growth of the industry***

**Recommendation 8:** Pool development project feasibility study and permitting costs for deduction under BCMT.

**Recommendation 9:** The province should aggressively pursue with the federal government a harmonized/single review for environmental assessment and permitting under provincial direction, including delegation and, if possible, devolution. Specifically, it is recommended that the province work with the federal government on the following issues:

- a) **Clarify expectations and requirements for listing tailings impoundment areas (TIAs) on Schedule II of the Metal Mining Effluent Regulations (MMER), with the objective of expediting the existing Schedule II process.** Note that in the longer term the listing of TIAs under Schedule II should be repealed or significantly changed such that a regulatory impact analysis statement (RIAS) is not required to deposit tailings into a fish-bearing water body. The RIAS process was not designed for specific project-level decisions and is unnecessarily duplicative and cumbersome as these issues are already addressed in the environmental assessment.
- b) **Encourage reasonable and practical application of the federal *Fisheries Act* to mining developments.** Since federal EA decisions typically lag provincial EA decisions in BC, the *Fisheries Act* authorization issued by DFO is often the critical path permit to begin construction. The application of DFO's "no net loss" policy seems to have considerable room for interpretation; reasonable interpretation of what constitutes harm and compensation for fish habitat would allow more timely project review while still being protective of fisheries resources.
- c) **Amend the *Canadian Environmental Assessment Act* (CEAA) to allow delegation to provincial EA processes on a province-by-province basis.** The CEAA process for determining federal responsible authorities and scoping requires the proponent to provide information out of sequence of when it naturally becomes available in the project design cycle. The result is a federal process that is not properly equipped for reviewing industrial projects due to de-harmonization from the provincial process and duplication of effort. Delegating management of the EA process to the BC Environmental Assessment Office (EAO) would allow federal agencies to focus their limited resources on technical review related to their permits and authorizations, rather than duplicating steps that are handled well by the BC EAO. The CEAA is under review in 2010 so there is an upcoming opportunity to remedy some of the structural flaws in the Act.

**Recommendation 10:** To further the objectives of clarity, certainty and clear timelines for proposed mining projects, to look at opportunities for improving the inclusiveness of project reviews and to enhance First Nations capacity for engaging in and benefitting from mining activity, the Task Force proposes the following:

- a) The Task Force asks the government to clarify the roles and responsibilities of all parties to the decisions regarding project permitting and approvals.
- b) The Task Force appreciates and applauds the province's decision to establish a framework for resource revenue sharing with First Nations for new mines. The Task Force encourages government to implement this policy as soon as possible as there are significant opportunities to advance existing projects.
- c) Invest in First Nation training initiatives, including long-term funding for programs, such as the Aboriginal Training Program offered by the Industry Training Authority (ITA), BCIT's Aboriginal Training Program in Mining, and the Northwest Community College's School of Exploration and Mining.

**Recommendation 11:** The government should undertake a formal review of the impact of monopolistic rail and port pricing and service practices on the mining industry in British Columbia and the degree to which existing statutory remedies are effective in countervailing these monopolies.

**Recommendation 12:** Accelerate the development of public infrastructure as part of the fiscal stimulus packages being considered by Ottawa and BC that would encourage new exploration and mining investment, and undertake a study to assess the ability of BC's ports to meet current and future needs of the mining industry.

**Recommendation 13:** The Task Force recommends that the government partner with the BC Labour Market Task Force on appropriate measures to help address the future human resource needs of the mining industry.



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<sup>i</sup> BC Stats, Employment by Industry, British Columbia: NAICS (North American Industrial Classification System). As found December 22, 2008 at: <http://www.bccstats.gov.bc.ca/data/dd/handout/naicsann.pdf>

<sup>ii</sup> Ministry of Energy, Mines & Petroleum Resources, Destinations of Major Metals from British Columbia, As found December 22, 2008 at:

<http://www.empr.gov.bc.ca/Mining/MineralStatistics/MineralSectors/Metals/MarketsandPrices/Pages/MarketDestination.aspx>

<sup>iii</sup> PriceWaterhouseCoopers, Looks Who's 40: The Mining Industry In British Columbia in 2007, May 2008, p.14.

<sup>iv</sup> Natural Resources Canada, Top 100 Exploration and Deposit Appraisal Projects of 2007 As found December 23, 2008 at:

<http://mmsd1.mms.nrcan.gc.ca/mmsd/exploration/2007%20top%20100%20explo%20map%20E.pdf>

